



Directorate of
Intelligence

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Near East and South Asia Review

25X1

3 July 1987

Received 12 July

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NESA NESAR 87-016
3 July 1987

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Egyptian soldiers and officers consider themselves poorly paid and are concerned that their standard of living is declining significantly. The military will increase its pressure for improved compensation, but its disgruntlement over low wages is unlikely to become a serious threat to the Mubarak government in the short term.

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[redacted]

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Recent Hizballah attacks against pro-Israeli forces in Lebanon do not threaten Tel Aviv's policy of supporting the Army of South Lebanon while minimizing direct Israeli intervention, but they have bolstered perceptions of Hizballah as leading the resistance to the Israeli presence and undermined the moderate Shia Amal militia.

[redacted]

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The Middle Eastern and North African states remain in the early stages of industrial development largely because of cultural and economic constraints. As a result they will continue to rely on assistance from the industrialized nations, but, even with such help, progress will be slow and the technological gap with the West will widen.

[redacted]

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A relatively small number of landlords and large-scale commercial farmers dominate use of Pakistan's agricultural supplies and services and provide much of its marketed output. Because of their influence at the village and national levels, landlords and large farmers can exercise considerable control over Pakistan's rural development policies.

[redacted]

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Investor response to Bangladesh's creation of Export Processing Zones—duty-free areas devoted to export production—has been less than enthusiastic. Inadequate infrastructure, corruption, and labor strife scare off potential investors despite government incentive and the availability of cheap labor.

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Some articles in the Near East and South Asia Review are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the view of a single analyst; an item like this will be designated as a noncoordinated view.

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**Near East and
South Asia Review**

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Articles**Arab Politics: From
Dormancy to Dynamism**

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Arab political maneuvering has intensified in recent months, as key regional players share a perception of movement on an Arab-Israeli peace process and the Iran-Iraq war. Moderate Arab efforts to narrow rifts within the Arab world, craft a joint Arab position on arrangements for an international peace conference, and strengthen Iraq's position vis-a-vis Iran are gaining momentum and meeting with some success. Some of the political shifts that have made this possible—particularly Syrian policy adjustments—may be only temporary, however, and are subject to reversal. The strength and durability of these trends are uncertain. Still, there is a good chance of the following developments over the next six months:

- Increased cooperation among Arab states on the Iran-Iraq war and on convening an international conference on the Arab-Israeli conflict, with Syria refraining from obstructionism.
- Convening of a regular Arab summit meeting, with endorsement of a coordinated Arab position on arrangements for a peace conference.
- Further strengthening of Iraq's political position vis-a-vis Iran.
- Expansion of moderate Arab relations with Moscow, allowing the moderates increasingly to play the Soviet card to gain US cooperation.

Shifting Arab Fortunes

Narrowing Rifts. As a result of a recent easing of Arab tensions, the moderate Arabs probably sense an opportunity to make progress toward convening an international conference on the Arab-Israeli conflict and increase pressure on Tehran to end the Iran-Iraq war. According to US Embassy reporting, Jordanian King Hussein's visits to Cairo, Baghdad, Damascus, and Riyadh have been aimed at healing Arab fractures, broadening Arab support for Iraq, and laying the groundwork for an Arab League summit

meeting, where a unified Arab position on a formula for an international peace conference could be adopted.

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Arab bickering has prevented the convocation of an Arab summit meeting since the gathering in Fez in 1982. The Saudis—as designated host for the next summit meeting and natural conciliators—have led occasional efforts to reconcile Arab differences sufficiently to convene a successful conclave. Now joined by King Hussein, these efforts have gained momentum. The urgency of these efforts derives from the moderates' desire to maintain movement toward an international peace conference, exploit increased Soviet activity in the region, and avoid being caught flatfooted in the face of unfolding developments in the Iran-Iraq war:

- A secret Syrian-Iraqi summit meeting in late April brokered by King Hussein has been followed by lower level meetings and discussions on potential areas of cooperation. The fact that the summit meeting took place was significant in view of the longstanding animosity between Presidents Assad of Syria and Saddam Husayn of Iraq.
- US Embassy reporting indicates that King Hussein and Egyptian President Mubarak are working on lining up Syrian support for an Arab-Israeli negotiating strategy. Amman and Cairo plan to seek written Syrian commitments on conference modalities within the next several weeks.
- Egypt's relations with the other Arab states have steadily improved over the past year. At the Islamic summit meeting in January—the most recent high-level regional forum—Mubarak was widely

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acknowledged as the star of the show. Assad held discussions with Mubarak—the first meeting between Syrian and Egyptian leaders since Cairo's estrangement from the Arab world following the signing of the Camp David accords in 1978.

- Moroccan and Syrian officials have initiated exploratory talks on the possibility of restoring full diplomatic relations. []

Moderate Influence and Radical Weakness. The success of moderate Arab efforts derives in part from economic woes that have increased the appeal of Gulf aid and other financial inducements. We believe Syria's less strident positions reflect, in part, an attempt to play all sides for economic gain. Meanwhile, the Gulf states resumed aid to Egypt over the past year—an important step in Cairo's gradual reintegration into the Arab world—out of concern that economic problems were leading to political instability and that Iraqi military setbacks might require closer security ties to Egypt. []

Radical states in the region have also been weakened by a variety of other developments: Syria's problems in Lebanon and with the PLO, Libya's misadventures in Chad, Iran's inability to effect significant change in the Iran-Iraq war, and South Yemen's preoccupation with internal strife. All of these states have been condemned internationally as supporters of terrorism. Syria, Libya, and Iran have been further weakened by bickering among themselves, particularly over policies in Lebanon, where there is a continuing risk of a showdown between Syria and the Iran-backed Hizballah. []

The Islamic summit meeting last January highlighted the relative strength of the moderates. Iran sent no delegation because of opposition to its position on the war. Assad showed up in return for Gulf Arab financial aid, but he was overshadowed by Mubarak. Libya's delegation, minus Qadhafi, faced tough arguments from the Arabs and Africans on Chad. []

Syria's Pivotal Role. Damascus has been the linchpin of Arab relationships in recent years. Its rejectionist positions have been largely responsible for the impasse

in Arab politics. We believe Syria's current political isolation and economic weakness are pushing Damascus to adopt a less strident regional stance, with primary examples being its more flexible posture toward Iraq and []

[] its expulsion of Abu Nidal operatives from Damascus. Syria could substantially reduce its isolation and receive a Saudi payoff by returning to the Arab fold on the Iran-Iraq war issue. Syria is not blocking Arab League efforts to garner support for UN sanctions against Iran. Iraq, for its part, wants to break the Syrian-Iranian alliance and attain broader Arab support in the war. []

The trend in improved Syrian-Iraqi relations, however, is tenuous at best. Assad probably does not want to break relations with Iran, and he remains a bitter enemy of Saddam Husayn. Moreover, reduced tension between Hizballah and Syrian forces in Lebanon would reduce Syria's willingness to break with Iran and improve ties to Iraq. A Syrian reconciliation with the PLO would significantly increase Assad's overall bargaining position with the moderates and would encourage him to resort to obstructionism on the Iran-Iraq war as well as Arab-Israeli issues. []

Iraqi Question Mark. A wild card in the shifting radical-moderate balance is Iraq. Formerly a staunch member of the radical camp, Iraq's more moderate stance in recent years has been driven by its reliance on Saudi Arabia, Jordan, Egypt, and the small Gulf states for support in the war. Although the Ba'thist regime in Baghdad is not about to abandon either its leftist ideology or its aspirations to assume the leadership of the Arab world, we believe the Iraqi position on an Arab-Israeli peace conference would be to support Jordan over the PLO—if an accommodation could not be reached between the two—and to stymie Syrian efforts to dominate the Palestinians. []

The USSR: Being There

Increased Soviet activism in Middle Eastern affairs has created the notion within the region that Moscow should be credited for many recent developments. We

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believe that over the past year the Soviets have skillfully dovetailed their Middle Eastern policies with regional trends ripe for exploitation, and their actions have accelerated movement on several fronts:

- Expanded Soviet contacts with the moderate Arabs were made possible in part by growing Arab frustration with US Middle Eastern policies and a general trend toward more balanced relations with the superpowers.
- The Iranian threat has become an increased concern for the Arabs, who have appreciated Moscow's increased political and military support for Iraq over the past several months. Baghdad has recently received the Soviet MIG-29 advanced fighter aircraft, and Moscow has stepped up its rhetorical support for Iraq. This support came in the immediate aftermath of strong Gulf Arab dissatisfaction with secret US arms sales to Iran.
- Soviet success in helping craft a semblance of PLO unity was aided by the frustration of both moderate and radical PLO factions with their respective Arab benefactors, the preoccupation of most Arab states with the Iran-Iraq war, and Syria's isolation.
- Renewed Soviet calls for an international peace conference on the Arab-Israeli conflict followed the collapse of Jordanian-PLO efforts to form a joint negotiating team and King Hussein's decision to internationalize the peace process.
- The small yet unprecedented Soviet security role in transporting Kuwaiti oil comes on the heels of increasing Iranian intimidation and a resulting Kuwaiti decision to seek outside involvement in the protection of Gulf oil tanker traffic.
- Soviet pressure on Assad to meet with Saddam Husayn coincided with growing Syrian displeasure over Iranian activities in Lebanon and intensive Arab lobbying to mend the Syrian-Iraqi split.

The Moderate Arab Strategy on a Peace Process

We believe moderate Arab leaders, particularly King Hussein, see Arab divisions—not Israeli or US policies—as the immediate obstacle to movement

toward negotiations. Bitter rivalries among Arab leaders—frequently on issues far removed from the Arab-Israeli conflict—have made it impossible for them to agree on a concerted strategy in the past, but they now are searching for a formula for an international conference that they believe will force the United States to press for Israeli concessions. The formidable barrier that the current deadlock in Israeli politics poses to the convening of a conference will not, in our view, deter the moderate Arabs. Indeed, it may provide an extra incentive for Arab leaders to come to terms on a conference formula in order to challenge Israel and the United States to participate.

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The moderate Arab leaders almost certainly realize that there still are major difficulties to be surmounted before a conference is convened and that the chances of a conference leading to a peace agreement are even more remote. The key actors continue to have sharp differences over the modalities and role of a conference. There is no indication that key Arab or Israeli leaders are ready to make the concessions necessary for a peace settlement, and it is highly unlikely that a conference could resolve to the satisfaction of all participants the fundamental disagreements over the occupied territories, let alone the status of Jerusalem and the Golan Heights.

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But even the appearance of progress is important to moderates like Hussein and Mubarak, who need continually to demonstrate their support of Palestinian nationalism. Since Jordan has a large Palestinian population and Egypt is the only Arab state to have made a separate peace with Israel, Hussein and Mubarak probably believe they are obliged to pursue even slim opportunities for making progress toward restoring Arab control to part of Palestine.

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King Hussein almost certainly believes Assad's hand has been weakened on Arab-Israeli issues, as evidenced by Assad's inability to prevent the convening of the Palestine National Council in Algiers in late April and by PLO chairman Arafat's

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ability to wean some of the radical Palestinian groups away from Damascus. The Jordanian monarch probably will step up his efforts over the next few months to try to narrow differences between Syria and the moderates on arrangements for an international conference. He will use a combination of personal diplomacy and Saudi money to court Damascus. [REDACTED]

Although the difficult question of Palestinian participation in a conference has yet to be worked out, moderate Arab leaders probably believe that coordination with Syria can produce a formula sanctioned at an Arab League summit meeting that the PLO would have to accept or risk being left out of negotiations. Hussein and Mubarak probably believe that Arafat will soften his positions to avoid being presented with a fait accompli, and that the PLO chairman would find it extremely difficult to oppose an agreement on Palestinian representation that was blessed by Jordan, Syria, Saudi Arabia, and Egypt. [REDACTED]

Prospects

We expect intense maneuvering and more tactical shifts in the coming months, which may clarify the strategies and objectives of individual Arab leaders. There is a good chance for several significant trends and developments—some favorable, others unfavorable to US interests—over the next six months, including:

- Increased cooperation among Arab states, and less obstructionist Syrian policies on an international conference and the Iran-Iraq war. There are likely to be further high-level contacts among Arab leaders aimed at smoothing over differences. The combination of pressure and inducements for Syrian pragmatism from all sides will be intense. Trouble spots such as Libyan radicalism will remain, but they will be peripheral to the Arab-Israeli and Iran-Iraq arenas.
- The convening of an Arab summit meeting, where a coordinated Arab position on arrangements for a peace conference, a strongly worded resolution critical of Iran, and some form of reintegration of

Egypt into the Arab world probably will be endorsed. Any agreement reached on a peace-seeking strategy probably would reaffirm the PLO as the legitimate representative of the Palestinian people while leaving open the nature of Palestinian participation at a conference to give the PLO an opportunity to make concessions that would allow it to join. The moderate Arabs—and Syria and Iraq—will expect Washington to match their movement with a more active political role by pressing Israel to agree to attend a conference.

- A strengthening of Iraq's political position vis-a-vis Iran. This will develop largely as a result of increased US and Soviet backing, Iraq's success in courting broader Arab support at Iran's expense, and the fraying of the Iran-Syria-Libya axis.
- A growing willingness of Arab moderates to expand relations with Moscow and to use the Soviet card to gain US cooperation on various regional issues. Jordan, Egypt, and possibly even Saudi Arabia—in exchange for Soviet moderating influence on Syria and potential pressure on Iran and the PLO—will sanction a Soviet role in a peace process and expand bilateral ties. The moderates probably judge that the United States will be more supportive of Arab interests if Moscow is more deeply involved in peace-seeking efforts, believing that Washington will not want the Soviets to assume the role of championing the moderate Arab cause. Kuwait's success in gaining US agreement to protect its oil exports followed its flirtations with Moscow about a major Soviet security role in the Gulf. Other moderate Arab states are likely to duplicate these tactics. [REDACTED]

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Syria and the Peace Process: The View From Damascus [REDACTED]

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Syrian President Assad is taking a more pragmatic tactical approach to the Arab-Israeli peace process. In his meeting with former President Carter last April, Assad affirmed Syria's commitment to a diplomatic solution to the Arab-Israeli conflict, and, for the first time, he hinted that face-to-face talks with Israel were possible. Despite the positive noises, we believe that Syria is not prepared to participate soon in an international conference to end the 40-year conflict with Israel. President Assad does not oppose in principle a negotiated settlement, but he believes that unconditional US support for Israel prevents the satisfactory resolution of Arab demands at this time. Recent tentative signs of a less obstructionist Syrian posture toward the peace process reflect Assad's political isolation and the effects of an economic crisis that is eroding Syria's ability to achieve strategic parity with Israel. [REDACTED]

Assad probably calculates that any move toward an international conference will founder because of divisions within the Israeli Government on this issue and the loss of political dynamism by a US administration distracted with other issues. Ultimately, Assad believes there is little danger that Syria will be left out. Syrian participation in the peace process is Assad's trump card, and he is unlikely to play it unless he has guarantees that Syrian and Arab interests will not be subverted by Israeli intransigence backed up by a sympathetic US partner. [REDACTED]

Assad is adamant that what he calls the "salami" tactics of the Camp David process will not go forward. If there is a peace process, it will not consist of a series of bilateral agreements, in Assad's view, but will emerge from a united Arab stand that will compel Israel to make peace on Arab terms. In an interview in September 1985, Assad stated that "Israel has always rejected and continues to reject peace with the Arabs collectively. It resorts to hunting the Arabs one by one because this leads to the dismemberment of the Arab nation, and this, in turn, further weakens the Arabs and places them in a capitulatory position vis-a-vis Israeli schemes." [REDACTED]

Syria retains an almost singlehanded ability to undermine any peace process that does not take into account Syrian interests or attempts to circumvent Damascus. Assad has demonstrated time and again his willingness to intimidate Jordan and the PLO or provoke Israel in a manner that could stalemate progress toward a political settlement. For example in mid-1985, when Damascus perceived that King Hussein was about to move independently on the peace process, the Syrians sent an unsubtle message to the Jordanians, pointing out that, had Syria had a common border with Egypt, there would have been no Camp David accord. [REDACTED]

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Syrian Demands: Palestine and the Golan

Syria's conditions for an end to the state of war with Israel include full and unconditional Israeli withdrawal from territories occupied in June 1967, including East Jerusalem, and the recognition of the inalienable right of the Palestinian people to self-determination. In Syria's view, if these conditions were met, the state of war would be replaced by an absence of hostilities, but not normalization. Assad is prepared to make guarantees concerning Israel's security, but his view of peace does not include diplomatic or commercial relations [REDACTED]

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Playing to the more than 500,000 Palestinians living in Syria and Lebanon—most of whom are from areas that are part of pre-1967 Israel—Damascus has consistently upheld the right of Palestinians to return to their ancestral homes and thus has not endorsed the idea of a West Bank-Gaza ministate. The regime has carefully avoided specific formulations for Palestinian statehood, stating that the Palestinians themselves must determine what constitutes a satisfactory solution. Nonetheless, Assad probably would be flexible on the Palestinian question provided that its resolution was accepted by other Arab states and the configuration of a Palestinian entity established Syria's preeminent political influence in it. [REDACTED]

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Assad will not compromise on his demand for the return of the Golan Heights to Syria. The Golan issue is intensely personal for Assad, who was Minister of Defense when the territory was lost to Israel in 1967. Conscious of his minority religious status, Assad is in no position to trade away Syrian territory, nor will he enter negotiations unless he believes the Golan issue will be resolved in Syria's favor. Once returned to Syria, we believe Assad would offer guarantees regarding Israeli security, including the demilitarization of the Golan and the assignment of an international observer force to the area. Assad, however, is skeptical that Israel will reverse its 1981 annexation of the Golan. He has stated publicly that, just as Israel did not take the Golan by law, Syria will not regain it by law. [redacted]

The Military Option

Assad firmly believes that Tel Aviv will never negotiate an equitable settlement with the Arabs as long as Israel's military superiority is unchallenged. In Assad's view, Israel has no incentive to make peace with the Arabs given its military strength and unswerving US support. Since Assad believes there will be no change of heart in Washington, he concludes that justice for the Arabs depends upon a credible Arab military capability. Despite Syria's economic crisis, Assad will pursue his goal of strategic parity—the unilateral option to confront Israel militarily. [redacted]

Assad's goal, however, is virtually unattainable in light of Israeli strengths and the recently stated Soviet unwillingness to support Syrian military parity with Israel. In a speech delivered during Assad's visit to Moscow last April, Soviet leader Gorbachev stated that the military option to resolve the Arab-Israeli conflict has been completely discredited. He noted that the Soviet Union was prepared to maintain Syria's defensive capability at an "appropriate level" but emphasized that the Soviets would refuse to be drawn into a local conflict that could escalate to a military confrontation between the superpowers. Soviet military assistance, nonetheless, will remain vital to Syria, but the volume and composition of those deliveries will be subject to fluctuations based on Moscow's perception of Syrian efforts to service its massive debt and cooperate on regional issues. [redacted]

Syria's economic crisis is also taking a toll on its conventional military capabilities. There has been a decrease in the rate of acquisition of major items of equipment [redacted]
[redacted]
[redacted] Other cost-cutting measures include early retirements, cancellation of active duty extensions, and the replacement of higher paid, more experienced personnel with low salaried new recruits. Under these constraints, a quick Syrian grab for the Golan—even as a Sadat-style tactic to break the political logjam and start negotiations—appears unlikely. [redacted]

Signs of Syrian Flexibility?

Whether or not he takes a seat in a peace conference, Assad's views on the mechanics of the process are evolving. For example, he has consistently rejected any formulation for direct negotiations with Israel, but he has recently demonstrated some flexibility on this issue. In the 20 April issue of *Time* magazine former President Jimmy Carter stated that he was authorized by President Assad to affirm Syrian support for the concept of an international peace conference, that Syria would be pleased to attend, and that it was clear that many outstanding questions would have to be negotiated in direct talks between Israel and the particular nation involved. [redacted]

The communique issued at the conclusion of Assad's official visit to Moscow last April noted "complete agreement" on the issue of an international peace conference. Assad agreed to the Soviet idea of a preparatory conference that would pair each of the parties to the conflict with a permanent member of the UN Security Council to articulate positions that would be submitted to an actual conference. Assad may view international involvement and the Soviet "pairing" concept as a buffer in the negotiating process and a means to finesse the issue of direct contact with Israel. [redacted]

Assad's position on the composition of the Arab delegation also appears to be evolving. Following the Egyptian peace treaty with Israel, Assad opposed the

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attendance of separate Arab delegations to a conference, fearing that a Camp David-style settlement would emerge, leading to peace between Israel and Syria's Arab neighbors but leaving Syrian interests unaddressed. Assad sought to maximize Syrian influence—and veto power—by arguing for a joint Arab delegation. His remarks to Carter indicate a willingness for country delegations, although he remains opposed to separate Palestinian representation. Assad's current maneuver to assure Syrian predominance in the negotiating process is to advocate the establishment of functional committees—rather than bilateral exchanges—to examine issues such as final boundaries. []

Assad's View of Israel

In our view, Assad is not capable of a dramatic move toward peace as was Sadat. He cannot ignore the fact that the state of Israel was created out of historical and geographic Syria. Moreover, unlike Sadat, Assad is genuinely committed to the Palestinian cause and will not jettison Palestinian interests to regain lost Syrian territory. Assad fervently believes that the Arabs have been victimized by Israel and that the expansion of its borders during four wars is indicative of Israel's quest to fulfill its manifest destiny. Assad frequently tells visitors that Israelis believe their divinely given boundaries run "from the Nile to the Euphrates," a phrase that Assad mistakenly claims is inscribed on Israel's Knesset building. []

Assad was profoundly affected by Israeli actions following the Golan disengagement agreement, reached in March 1974. The withdrawing Israeli forces evacuated the residents of Qunaytirah, the largest population center in southern Syria, and systematically destroyed every building in the city, including the mosque and the church. Assad ordered that Qunaytirah not be rebuilt but remain as a monument to Israel's implacable hatred for the Arabs. []

Secret Meetings?

Despite the bitterness, there are indications that Syria and Israel have had direct contacts through low-ranking officials. There were indications of meetings between Syrian and Israeli officials earlier this year. Although the reliability of the information is

questionable and we cannot confirm any of the meetings, the number of separate references to meetings suggests that some may have taken place. If talks did occur, we suspect they concentrated on practical aspects of the situation in southern Lebanon rather than on larger issues of peace. Nonetheless, once the precedent of face-to-face meetings has been set, the prospects for opening channels for discussing the mechanics of peace could improve. []

Outlook

As Syria's economic problems mount and its military options decrease, it has become more vulnerable to outside influence on a number of issues. The need for Arab aid, for example, has led Assad to make concessions on the margins—such as his semi-secret meeting in Jordan last April with Iraqi President Saddam Husayn. []

Likewise, Soviet pressure has been a significant factor shaping Assad's present tactics toward the peace issue. New Soviet activism in the region, particularly efforts to improve ties to moderate Arabs, appears to have made Assad less willing to provoke his principal benefactor. Despite strains in the relationship, Assad is confident that the Soviets will not require him to compromise his basic objectives, and we see Assad's recent endorsement of Soviet peace proposals as little more than a cost-free means to curry favor. Assad may believe that by approving the latest Soviet peace initiative—he endorsed previous Soviet peace proposals in 1981 and 1984—Moscow will ease pressure on Damascus to adjust its policy toward the PLO or perhaps increase Soviet generosity on military and aid issues. []

Despite the growing number of factors that appear to compel Syria toward an international conference, we believe Assad intends to put off the day of reckoning for as long as possible. Much of Assad's regional influence—and traditional Arab aid—stems from Syria's role as the principal confrontation state with Israel. In an environment of peace, the Syrian giant would be cut down to size. Assad is not prepared to give up Syria's dominant role in inter-Arab politics or

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sacrifice his significant international status—both of which are bound up in the Arab-Israeli conflict—for the sake of peace. Assad, nonetheless, believes he can afford to be more flexible in his peace rhetoric.

Although he is accustomed to playing the spoiler in the peace process, recent experience is showing him that, for the time being at least, he can leave that role to others, especially Israel's hardliners.

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Egypt-PLO: Prospects
for Reconciliation

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Egypt and the PLO are quietly probing for ways to repair the recent rupture in their relations. An eventual resumption of formal ties is virtually certain, but prospects for a near-term rapprochement appear dim. The impasse risks delaying progress on the Arab-Israeli peace process and strengthening the hand of hardliners like Syria, should they seek to block Egypt's participation.

His move against Arafat appears to have dealt a significant, if temporary, setback to members of the Egyptian foreign policy establishment—in particular powerful presidential adviser Osama al-Baz—who favor a strong pro-PLO policy.

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Relations Ruptured

Egyptian President Mubarak reacted angrily when the Palestine National Council issued a hardline resolution against ties to Egypt in late April. Accusing PLO Chairman Arafat of selling out to Syrian-backed radical Palestinian factions in order to forge a fragile unity within the PLO, Mubarak lambasted the Council resolution as a major insult to Egypt's longstanding support for the Palestinian cause.

Whether Egypt moves decisively to repair the damage in the months ahead will depend in part on how soon the foreign affairs professionals can regain Mubarak's ear and control of Egypt's PLO policy. At present, they are being kept on a short leash,

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In retaliation, Mubarak carried out an earlier threat to act against any such anti-Egyptian move by shutting down PLO offices in Egypt. Press reports suggest domestic opinion has generally supported Mubarak.

Peace Feelers

Since the Palestine National Council meeting, each side has been quietly probing for signs that the other is willing to put relations back on track, but Arafat appears particularly eager for a rapprochement.

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Mubarak's move against the PLO, however, has deeper roots. Over the years he has become deeply frustrated with Arafat's maneuvering to avoid peace negotiations with Israel. Mubarak has long accused the Palestinians of wasting opportunities, in particular because of Arafat's refusal to recognize UN Security Council Resolutions 242 and 338—the most widely recognized basis for peace in the Middle East—and more recently the PLO's reluctance to deal constructively with Jordan, Egypt's leading partner in the peace process.

Arafat is committed to good relations with Cairo because he regards Egypt as the only effective counterbalance to the Syrians who he believes intend to destroy him. While publicly minimizing tensions with Egypt and praising Mubarak for his efforts on behalf of the Palestinians, Arafat has asked several Arab states—including Kuwait, Algeria, and Sudan—to intercede with Cairo on the PLO's behalf.

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Despite his eagerness, Arafat is operating under several constraints that argue against near-term progress. Internal differences remain the major stumblingblock. Arafat must attempt to engage Cairo in a dialogue without jeopardizing Fatah's new unity with the Syrian-backed Palestinian radical groups or allowing these factions to impose a militant agenda on the PLO. Although the PLO Executive Committee agreed to a communique that included praise for Egypt, [] the approval came only after intense debate on the future of Egyptian-PLO relations. [] Arafat is having a hard time curtailing uncoordinated public statements critical of Egypt from hardline PLO officials. []

Arafat may be able to normalize relations with Egypt by exploiting ambiguities and escape clauses in the Palestine National Council resolutions and by approaching the issue quietly and informally without appearing to openly challenge the radical factions and undercutting PLO unity. Indeed, the radicals expect Arafat to adopt this tactic. []

[] On balance, we believe there is too much internal opposition to reconciliation with Egypt for Arafat to mount a highly visible campaign to court Mubarak. []

More likely, Arafat will avoid testing Palestinian unity and instead let time heal the wound. He appears more convinced than ever that Egypt needs the PLO. This view has been encouraged by signals from Cairo. According to the US Embassy, PLO officials in Egypt were assured by Egyptian officials soon after the Palestine National Council meeting that restrictions on PLO activity in Egypt would be quickly minimized and gradually reduced. []

Egypt's PLO Agenda

Mubarak, for his part, has no interest in broadening the rift, but he is smarting from the PLO's insolent treatment of Egypt and appears in no hurry to restore ties. He has stated publicly that, since the PLO caused the damage, Arafat must make the first move to repair it. Moreover, he is finding the freeze useful as a means of conveying a tough message to Arafat: the PLO must play a more constructive role in the peace process by accepting UN Resolutions 242 and 338, forging a relationship with Jordan, and demonstrating tactical flexibility on the issue of Palestinian representation. []

Despite Mubarak's irritation, Egypt has not closed the door on the PLO. []

[] a Foreign Ministry memorandum has recommended that Egypt keep its options open with the PLO and gradually permit its offices to reopen. The memorandum suggested that Palestinian unity was probably too fragile to last and that in the end Arafat and Egypt would need each other to continue the peace process. []

There are also signs that Mubarak is prepared to allow positive gestures aimed at encouraging a Palestinian response. According to Embassy reporting, he is permitting Foreign Minister Abdel Meguid to see Hani al-Hasan and has authorized communications with other PLO emissaries. []

[] Mubarak will not meet with Arafat until he publicly renounces the Council resolutions, and we judge that an Arafat visit is at least several months away. []

Further Egyptian restrictions on the Palestinians are unlikely, but that option remains available. Indeed, much Palestinian activity in Egypt was not closed down. Although six offices in Cairo and Alexandria were shut, the 90-100 Palestinian officials who staffed them were permitted to remain in Egypt []

[] Moreover, most unofficial

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Palestinian activities and individuals, such as students, appear to have been unaffected by the ban.

Implications for the Peace Process

The Egyptian-PLO impasse sets a significant obstacle in the path of progress toward Arab-Israeli peace negotiations. The split has put Egyptian-PLO relations right where Palestinian and Syrian hardliners want them and denied Egypt important leverage for influencing peace developments.

The Egypt-PLO rupture has also brought Cairo closer to Jordan and appears to have strengthened King Hussein's confidence in Mubarak as a partner in the peace process. Together they are sending a tough message to Arafat to get moving on peace or risk being left out of the process. In the final analysis, however, Egyptian policymakers recognize that Jordan's quest for an alternative Palestinian leadership is a nonstarter and that only the PLO possesses the requisite support to represent Palestinian interests at the peace table. Although Mubarak probably recognizes that reconciliation with Arafat in the near term would undercut his valued relationship with Hussein, he almost certainly plans to maintain at least some contact with the PLO.

Active involvement in the Arab-Israeli peace process remains a basic requirement of Egyptian foreign policy, and Egyptian officials have pledged not to

abandon peace efforts, according to Embassy reporting. On the other hand, Mubarak may welcome an opportunity to take a lower profile on peace issues while he concentrates on pressing domestic matters, including politically sensitive economic reforms and his own reelection next fall.

We see little evidence that Cairo's move against the PLO will slow Egypt's reintegration into the Arab community. Nor do we believe that aid and investment flows from the Gulf states will dry up as some members of the Egyptian foreign policy establishment have predicted. Indeed, Mubarak may welcome offers of Arab mediation as an opportunity to reaffirm his support for Palestinian rights and ingratiate himself with potential donors.

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**The Egyptian Military:
Complaining About
Economic Hardship** [redacted]

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We believe Egyptian soldiers and officers consider themselves poorly paid and are concerned that their standard of living is declining significantly. Many have turned to moonlighting to make ends meet. Even though an extensive network of perquisites and privileges offers military personnel security and eases their financial burdens relative to those borne by civilians in Egypt, they are displeased that these benefits are not keeping pace with inflation. [redacted]

tend to be low compared to those of some workers in the private sector. For example, we estimate that a first-year, married captain serving in the Central Military District (Cairo area) would be eligible to receive about 178 pounds (\$89) with supplements, while a carpenter or plumber can earn 10 times the captain's gross wages [redacted]

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The military believes it should be exempt from economic belt-tightening by virtue of its importance to national defense. Although many military personnel believe a general austerity program will help reduce Egypt's economic difficulties, they are unwilling to sacrifice military programs or benefits.

The lower ranks are especially hard hit by economic difficulties. US Embassy sources in Cairo report that conscripts—who do not receive many of the privileges of officers—often live in primitive conditions, particularly outside Cairo. Embassy officers say they have seen some conscripts living in discarded packing crates. Volunteer soldiers and noncommissioned officers, some with many years of experience, also are disgruntled over their inability to make enough money to compensate for rising prices. [redacted]

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[redacted] most believe military spending is not the cause of Egypt's economic problems, and they say reductions in the armed forces budget will not contribute to economic recovery.

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The military will increase its criticism and pressure for improvements in compensation, but we do not believe its disgruntlement over low wages will become a serious threat to the Mubarak government in the short term. Moreover, because the government wants to guarantee the military's loyalty, it is likely to act quickly if the economy improves to meet some of the armed forces' demands. [redacted]

Morale in the officer corps is worsening because of low salaries and the perception among some officers that they can earn more in the civilian sector. A major general in the Egyptian Air Force has complained that an Egypt Air stewardess earns six times his salary. [redacted] A US official who worked with the Egyptians says that many officers come from the middle and upper classes and do not believe they can afford to live in a style similar to the one they had before they entered the military. Officers also counted on promises of "generous" promotions to increase their salaries, but the rate of advancement has slowed. Even officers from the Air Force, the service usually favored by Mubarak in terms of benefits, have complained that they no longer have enough money to buy basic commodities because of low salaries and routine debt payments. [redacted]

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Financial Squeeze

The military is particularly displeased that budget constraints are keeping pay low, [redacted]

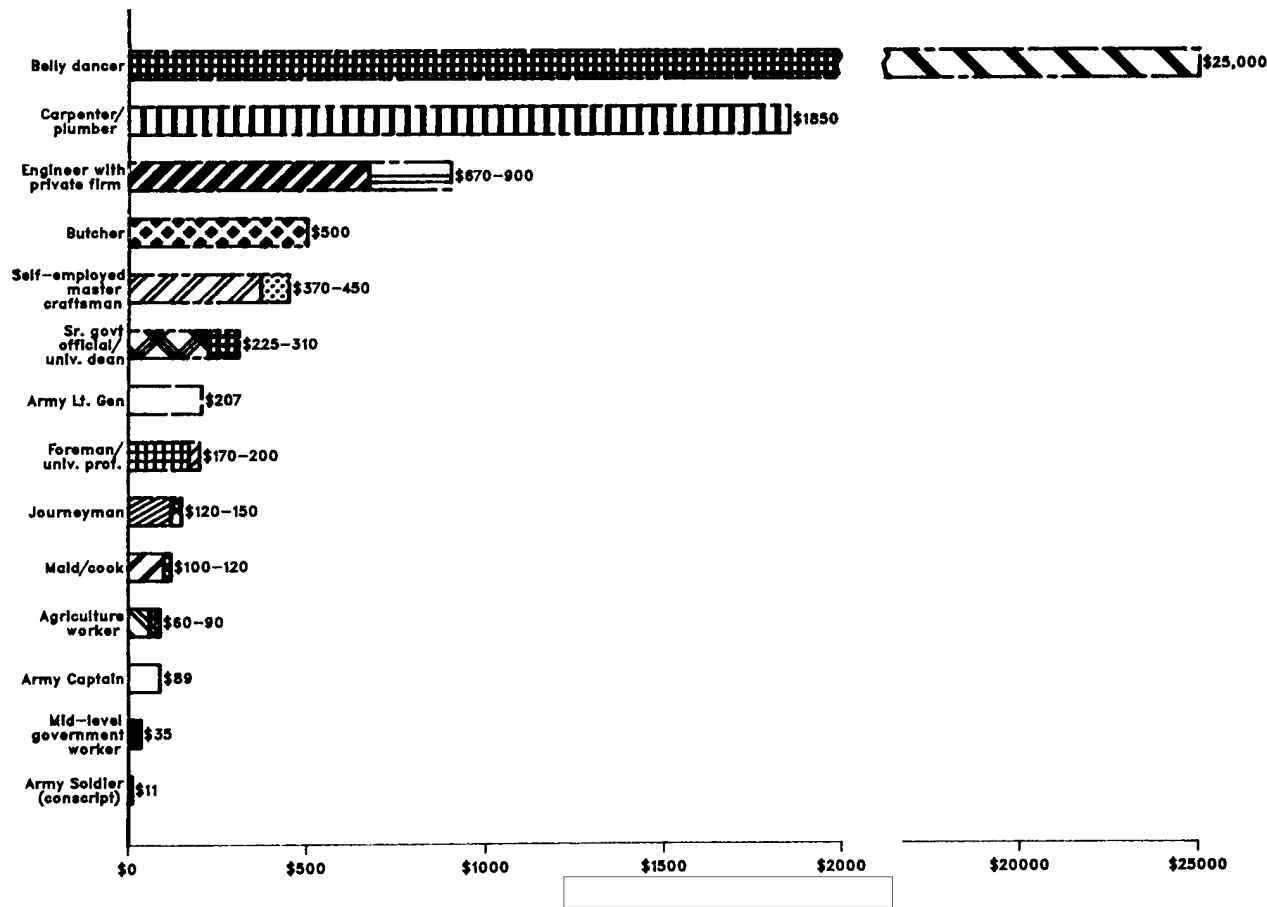
[redacted] Salaries vary considerably depending on rank, length of service, type of duty, and technical expertise, but the basic scale issued in 1984 has not changed significantly. Monthly base salaries range from about six Egyptian pounds (\$3) for a conscript to some 200 pounds (\$100) for a lieutenant general, [redacted] Even though supplements and bonuses approximately double incomes for enlisted men and officers, wages

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Estimated Average Monthly Salaries
for Selected Egyptian Workers



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Many military personnel are augmenting their incomes by moonlighting in the civilian sector, and we expect the number to increase as inflation reduces the purchasing power of their low wages.

policy prohibits moonlighting.

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the restriction against second jobs for officers was quietly relaxed last year and will be enforced only if officers' military duties suffer or if their moonlighting embarrasses the military.

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A US official

reports that many officers make the majority of their income from second jobs. We suspect that the percentage of enlisted men and conscripts moonlighting is even higher. Ministry of Defense

Perquisites and Prestige Mitigate Strains

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The prestige of a military career, in our view, continues to make the services an attractive option for many Egyptian men, despite low salaries. The

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military has lost much of the distinction it gained with the 1952 revolution and the 1973 war, but it remains the most powerful institution in Egypt. US Embassy sources say most officers still consider themselves members of an elite organization. [redacted]

The military also offers relative security through an extensive network of privileges and perquisites. We believe these benefits insulate the armed forces from many of the economic hardships affecting civilians, help to offset low pay, and sustain the military's loyalty to the regime. [redacted]
[redacted] among other advantages, regular military personnel:

- Have the option of purchasing houses and cars on extremely good terms. For example, military officers and officer candidates can contract for two bedroom or larger apartments with a downpayment of about 4,000 to 5,000 Egyptian pounds (about \$2,000 to \$2,500) and a monthly payment of 40 to 50 pounds (\$20 to \$25) thereafter. Even the least desirable new apartments in Cairo cost civilians some 20,000 to 30,000 pounds (\$10,000 to \$15,000).
- Receive free medical care, even after retirement.
- Can buy low-priced food and consumer goods at special military stores.
- Are provided with recreational facilities, including officers' clubs and seaside resorts.
- May take advantage of an inexpensive military program sponsoring pilgrimages to Mecca.
- Have access to military education and training that will give them saleable skills in the civilian market after they retire from service. [redacted]

Paying for Benefits

Foreign exchange constraints probably will prevent the regime from increasing military benefits this year. [redacted]
[redacted]
Inflation—currently about 30 percent annually—will result in a real decline in government funds available to the armed forces. [redacted]

The Defense Ministry, however, has financial resources that are neither part of the official budget nor under civilian control, and we believe these could be used to increase military pay and perquisites. We do not know the total available to the military, but its extensive involvement in business deals suggests that the amount is substantial. The Ministry of Defense has emphasized expanding its own agroindustrial complex since the late 1970s, and the National Services and Products Organization, an independent agency in the armed forces that is run to make a profit, has grown substantially. It employs at least 100,000 soldiers and civilians in various projects, according to reporting from the US Embassy in Cairo. Military personnel operate farms that produce a variety of meat and vegetables, build large "cities" designed to house and provide basic services to military personnel and their families, and run factories that produce items for defense and consumer needs. For example, according to a foreign defense attache, the military agricultural complex as of last December was producing some 7 million tons of milk daily and 60 million eggs, 50,000 tons of vegetables, and 8,000 tons of meat annually as well as fodder, edible grains, and fruit, some of which it sold on the civilian market. The military also is involved in many other ventures that earn revenue, including arms and land sales. [redacted]

[redacted] we believe military profits have been used to protect the military from economic austerity by augmenting salaries and providing benefits not covered in the official budget. [redacted]

[redacted]
[redacted]
[redacted]
[redacted] about two-thirds of military profits from arms deals support military housing, maintenance, and purchases of spare parts. [redacted]

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Outlook

Complaints about inadequate salaries and financial woes so far have not generated active resistance or violence among military personnel, nor does the loyalty of the armed forces to Mubarak appear to be in doubt. The military generally appears to believe that Mubarak, a former Air Force officer, will protect its interests as much as possible against competing demands for funds. The President also has an important ally in Abu Ghazala, who, at least in the short term, will probably continue to support the administration. The Defense Minister is popular within the armed forces as the guarantor of their perquisites and for his attempts to expand military benefits. [redacted]

As inflation increases over the coming months, military personnel probably will continue to complain about declining standards of living and will intensify pressure on the Mubarak government to improve salaries. Even though the regime probably will act as quickly as possible to secure the loyalty of the military by satisfying its demands, we doubt that the economy will pick up enough this year to allow it to substantially increase compensation. The Defense Ministry also expects its personnel to have to live with

the strains of a tightened budget. [redacted]

[redacted]

Nonetheless, we suspect that the private Defense Ministry budget, if not the official budget, has sufficient resiliency to increase compensation if morale in the military plummets and it begins pressing for changes in leadership. Abu Ghazala particularly would want to at least partly satisfy military demands to secure his own power and prestige. [redacted]

[redacted]

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Lebanon-Israel: Hizballah's Strategy and Capabilities [REDACTED]

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Recent Hizballah attacks against pro-Israeli forces in Lebanon do not threaten to overturn Tel Aviv's policy of supporting the Army of South Lebanon while minimizing direct Israeli intervention. If the trend toward larger and more determined assaults by the fundamentalist Shias continues, however, Israel will have to take a more active role. [REDACTED]

has been put in the difficult position of having to either tacitly defend Israel's continuing presence in Lebanon or support Hizballah in its attacks. We believe that Amal has reluctantly followed the fundamentalists' lead. [REDACTED]

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The widely publicized assaults on pro-Israeli forces in South Lebanon have bolstered perceptions of Hizballah as leading the resistance to the Israeli presence. We believe Hizballah's activism in the south has translated into important political advantages against the Amal militia, the fundamentalists' rival for influence among Lebanon's Shias. [REDACTED]

Hot Summer in South Lebanon?

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Hizballah's attack on 31 May near Jazzin involved considerably larger forces than it had fielded in the past and provided dramatic evidence of the fundamentalists' growing military strength. Estimates of the number of attackers range from 250 to 400.

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Hizballah's Southern Strategy

Driving the Israelis out of Lebanon is not the fundamentalists' most pressing goal. The latest attacks seem aimed at weakening the influence of the Amal militia and demonstrating Hizballah's improved military capabilities. [REDACTED]

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The Israeli troop presence in Lebanon is a political foil that Hizballah has manipulated to its advantage. Although the Israelis were welcomed by some South Lebanese Shias in 1982, the Israeli presence became increasingly odious to them. After their withdrawal in 1985, Israel sought a modus vivendi in which Amal—in effect—would police southern Lebanon. Amal's decentralization, the preoccupation of its leadership with the anti-Palestinian camps war in Beirut, and the restlessness of South Lebanese Shias allowed Hizballah to begin usurping Amal's unchallenged position in the south. [REDACTED]

The success of the attack last May stands in sharp contrast to the setback Hizballah received on 18 April when a force of roughly 100 fighters attacked two Army of South Lebanon positions. We estimate that Hizballah suffered about 25 killed in an assault that had little effect. Israeli military officials portrayed the high level of casualties inflicted by its Lebanese surrogate on Hizballah as a clear defeat. [REDACTED]

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The May attack shows that high casualties have not deterred Hizballah. In our view, casualties have at best a secondary effect on Shia willingness to attack pro-Israeli forces in Lebanon. [REDACTED]

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The Israelis believe that in the last year Hizballah has become the most important factor in operations against the Army of South Lebanon and the security zone. As Hizballah attacks increased, hopes for an Israeli withdrawal faded. Retaliation by the Israelis or their Lebanese surrogate created a cycle of violence that has helped to radicalize the southern Shias. Amal

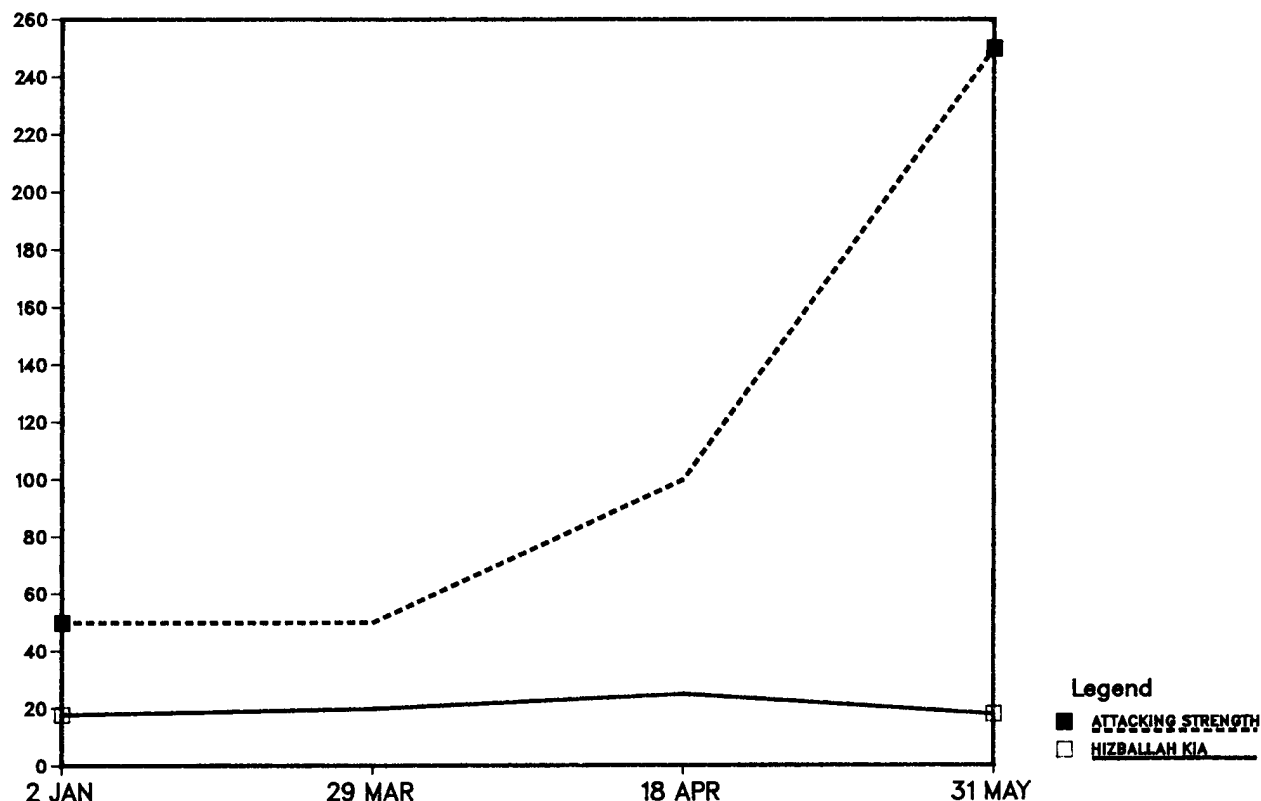
Hizballah leaders regard the May attack as a significant victory. Public statements by Hizballah leaders claim that the attack cracked the morale of the Army of South Lebanon and demonstrated the

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3 July 1987

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HIZBALLAH ATTACKS ON PRO-ISRAELI FORCES (Since 1 January 1987)



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qualitative edge Hizballah holds over its opponents.

The May attack, moreover, almost certainly strengthened Hizballah against other Lebanese Shias who had argued that, because of the high casualties it had suffered earlier, the attacks should stop.

Hizballah's Learning Curve

Hizballah has learned from its mistakes.

In May the Shias began to coordinate infantry and artillery, improved their capability to attack Israeli helicopters, and demonstrated improvements in extracting wounded from the battlefield. Hizballah captured ammunition and other stores when they drove off Army of South Lebanon defenders, but, perhaps more important, Hizballah fighters destroyed everything they could not carry off when they were forced to retreat.

It was not always so. The fundamentalists' attacks before the spring of 1986 were more undisciplined acts of desperation than organized military action. Shia resistance to the Israeli occupation was by and large eclipsed by the spectacular suicide car bombings conducted by the Syrian Social Nationalist Party. Hizballah attacks at the time consisted mainly of placing landmines in roadways or otherwise concealing explosives. Although there were incidents of armed Shias shooting at Israelis or the Army of South Lebanon, Hizballah seems not to have been able to organize a sniping campaign against these forces.

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Beginning in the spring of 1986, [REDACTED]

[REDACTED] began to tell of squad-size operations using guerrilla-style hit-and-run tactics. By last fall, Hizballah began what appeared to be carefully planned attacks on Army of South Lebanon strongpoints. In September, Hizballah launched unprecedented simultaneous attacks on positions in South Lebanon in what appeared to be the start of an offensive to seize control of the opposition to the Israeli presence in South Lebanon, further undercutting support for Amal among the country's Shias. [REDACTED]

By last spring, Hizballah had moved to platoon- and company-size attacks involving over 100 fighters.

[REDACTED] that the fundamentalist attacks are better planned and executed and more complicated, involving supporting artillery and mortar fire. [REDACTED]

Israel's Response

Tel Aviv believes it has little choice but to keep using the Army of South Lebanon as a shield. The current policy of enhancing this militia's capabilities by increased training or providing tactical support inside Lebanon as necessary seems unlikely to change. Domestic political considerations make committing Israeli forces to anything but short-term operations inside the security zone a remote possibility at best. [REDACTED]

Israel's hands, however, are not completely tied. We believe Tel Aviv will look for opportunities to attack Hizballah concentrations whenever possible. The increased size of Hizballah's recent attacks raises the possibility that good tactical intelligence may enable the Israelis to target Hizballah fighters assembling for an attack. The supporting artillery fire noted in the most recent attacks may present targets to Israeli counterbattery artillery and attack helicopters. [REDACTED]

The Israeli air force has thus far not attacked Hizballah's main training facility in the Bekaa Valley, the Shaykh Abdallah barracks. Extensive damage to Shaykh Abdallah would disrupt Hizballah's ability to train for company-size

operations and would—for the short term at least—force the fundamentalists to divert manpower to defending against air attack. [REDACTED]

Outlook

Hizballah's southern strategy is working. Lebanon's southern Shias are growing increasingly radical, although Amal retains considerable support. Several prominent clerics in the south are influential Hizballah backers, and we suspect that additional clerics sympathize with the fundamentalist camp. We also believe that Hizballah inroads in the south are not well documented and that more Shia villages contain both Hizballah and Amal supporters than previously believed. If our suspicions are correct, Amal would still play an important role in the political life of the southern Shias, but Hizballah—in contrast—would be a more dynamic force. [REDACTED]

More attacks on the Army of South Lebanon are likely. Considerable amounts of military supplies and weapons destined for Hizballah shipped from Iran had been held in Syrian warehouses, but last spring Damascus released the materiel to the fundamentalists. [REDACTED]

Although this does not mean that the arms floodgates have opened for the fundamentalists, Hizballah should have more than ample arms for its summer campaigns. The Syrian clampdown on Hizballah activity in West Beirut, moreover, has helped channel the organization's energies toward South Lebanon. [REDACTED]

Israel cannot easily land a knockout punch. Although the Army of South Lebanon has modified its tactics, its orientation seems overly defensive. Hizballah has thus far not concentrated its forces prematurely and has apparently dispersed its fighters after attacks. [REDACTED]

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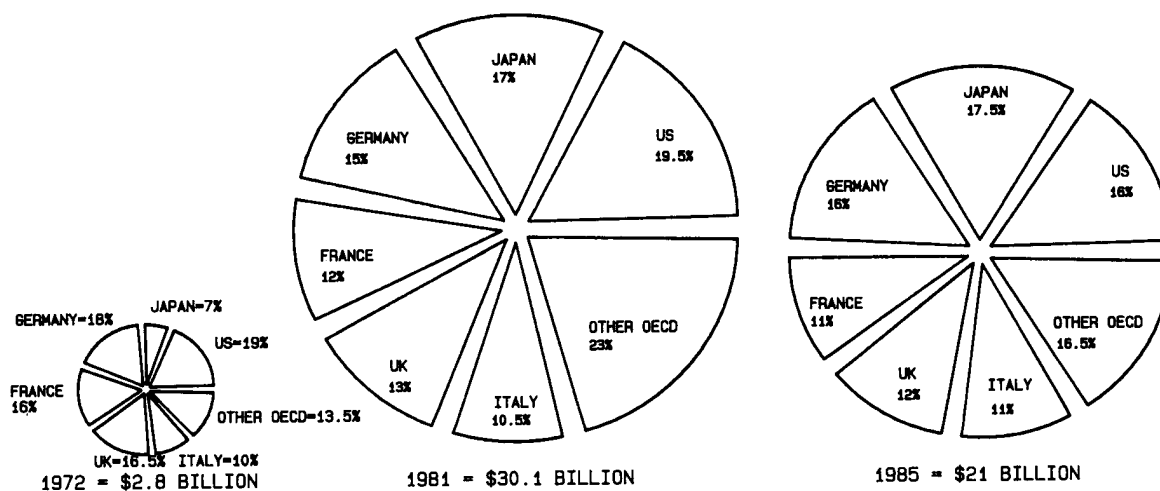
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OECD^a MACHINERY^b EXPORTS TO THE MIDDLE EAST AND NORTH AFRICA^c

^a Except Iceland, New Zealand, Portugal and Turkey

^b We have used the category machinery as a proxy for the region's imports of low technology goods. The category includes all types of engines, farm equipment, heavy industrial machinery, business machines and computers, electrical equipment, forklifts, pumps, scientific instruments, and spare parts for machinery.

^c Information was available for the following Middle East and North Africa countries: Algeria, Bahrain, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, North Yemen, Oman, Qatar, Saudi Arabia, South Yemen, Sudan, Syria, Tunisia, UAE

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Technological Development in the Middle East and North Africa: Poor Performance, Bleak Future ¹ []

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The Middle Eastern and North African states remain in the early stages of industrial development.² They have experienced difficulty assimilating relatively sophisticated equipment and technologies and generally are not noted for their skills in innovation or invention. Cultural and economic constraints are serious impediments to technological progress. As a result, the countries of the Middle East and North Africa probably will continue to rely heavily on purchases and assistance from the industrialized nations. Even with such help, progress will be slow and the technological gap with the West is likely to widen. []

Modernization Goals and Trends

The countries of the Middle East and North Africa began to reassess their development plans after the dramatic increase in oil revenues and remittances resulting from the region's oil and construction boom in the 1970s. They developed policies calling for greater use of technology to improve living standards, promote economic growth, raise national pride, and support military objectives. The region's imports of machinery from the OECD countries—a rough indicator of technology acquisition—increased more than tenfold between 1972 and 1981. When oil revenues and remittances began to decline in the early 1980s, the Middle Eastern and North African states slowed the pace of modernization. []

Government ministries often claim that they want “appropriate” technology. Saudi Arabia and the smaller Gulf states have been able to pursue capital-intensive projects in the oil industry that are well

suited to their relatively small populations. Morocco, with its large population and rapid population growth, has chosen some projects in agriculture that use labor more intensively. Nevertheless, complex and capital-intensive imported technology is favored in some countries with large populations or high unemployment—such as Egypt and Jordan—where it would be wiser to focus on less sophisticated, labor-intensive projects. []

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A Few Bright Spots

Countries in the region have had varying degrees of success in economic modernization:

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- All have developed or imported technology to improve health care and municipal services, such as sanitation, and life expectancies have increased dramatically.
- Petroleum engineers in Saudi Arabia and some of the smaller Gulf states have improved upon oil extraction and refining techniques. These countries operate complex petrochemical projects that contribute significantly to government revenues.
- Local manpower has been trained to operate and maintain most civilian aircraft and to manage the air traffic control systems. Five of the region's airlines consistently rank among the world's top 50 in terms of passengers carried, freight tons carried, and distances flown. The aircraft and traffic control systems are predominantly Western in origin.
- Egypt, whose research and development efforts probably are the strongest in the Arab world, has several relatively good laboratories devoted to medical and agricultural research. Egypt's dependence on the Nile has also spawned some of the best water technicians in the world, according to US Government officials.

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¹ For the purposes of this article, technological development largely refers to applications that would be regarded as low technology in most of the industrialized West but which represent attempts to enter a new phase of industrialization in North Africa and the Middle East. Examples include machine tools such as radial arm drills and metal-working lathes, computer systems that keep track of government finances or foreign workers and visitors, and new methods to exploit mineral wealth. []

² Excluding Israel, which has been successful in building a technological and industrial base. []

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NESA NESAR 87-016
3 July 1987

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The Negative Impact of Technology on Labor Markets

There is a downside to promoting a more efficient infrastructure using capital-intensive and labor-saving technology. Fewer workers are required, but they must be more highly skilled. Most countries in the region already have serious difficulty in trying to lower unemployment, raise worker productivity, and train their work forces adequately. Where capital-intensive and labor-saving technology is successfully introduced, unemployment problems often become more severe. Work forces in several increasingly capital-intensive industries such as textiles, petrochemicals, and telecommunications probably have been decreasing steadily over the last two to three years. []

Although much of the Jordanian population is well educated and supports government efforts to modernize and provide technical jobs, some lesser educated Jordanians fear that technological advances will eliminate their jobs. []

Where positions have become obsolete following the installation of new technologies or updated equipment, displaced Jordanians frequently have been kept on the payroll and assigned other duties, such as security. Broad government modernization plans call for retraining displaced employees to operate new equipment, but no programs have been established so far. []

- Jordan is the principal supplier of technical manpower to the Gulf states. Amman plans to form consulting firms to service the technical requirements of the region—which up to now have largely been provided by Western expatriates.
- Industries in several countries in the region use computers, machine tools, or other modern equipment to streamline production processes. []

Shortcomings and Failures

Most of the countries in the region have been unable to fulfill their technological development goals, and they remain poorly positioned to do so. Despite government declarations encouraging the indigenous development of technology, most governments have failed to provide sufficient financing, especially during periods of shrinking resources. Arab states spend only an average of about 0.3 percent of GNP on research and development compared with an average of 0.4 percent in non-Arab African countries, 0.5 percent in Latin America, 1.2 percent in Asia, 2.5 percent in the United States and Japan, and 3 percent in Israel. []

Little applied scientific research is performed in the region. Industry provides almost no support for research and development in most countries in the Middle East and North Africa—in contrast to the pattern in most industrialized nations. Because universities dominate research and development in Arab countries—Egypt's universities, for example, sponsor between 70 and 90 percent of research and development—there is an emphasis on esoteric research, and short shrift is given to practical applications of technology. When area governments have become involved in research, they have invested mainly in low-grade, trial-and-error types of technical experiments that produce marginal results. []

Technological “white elephants” are common throughout the area. They result from poor planning and a failure to adapt technology to local conditions. According to US Embassy officials, national pride gets in the way of eliminating these projects. Examples include:

- A chemical fertilizer plant in Egypt that would cost less to shut down and keep paying employees' salaries than to keep the plant operating.
- A phosphoric acid plant in Morocco that produces far below capacity and does not have enough qualified foremen and middle-level managers.
- Advanced agricultural techniques in Jordan and Saudi Arabia that produce food crops at enormous cost. []

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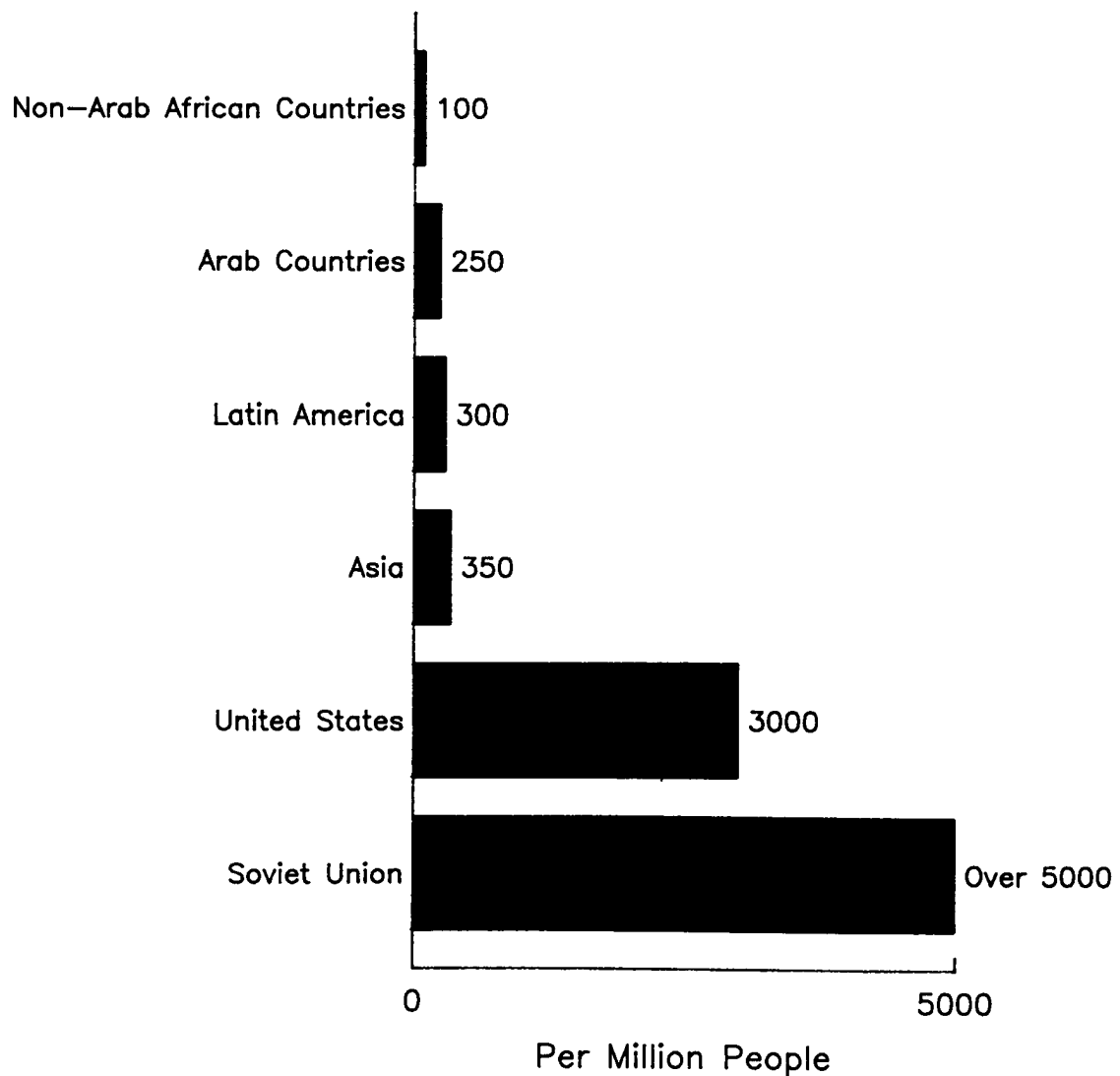
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*Proportion of Research & Development
Scientists and Engineers, 1987**



* Estimated, based on UNESCO statistics

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Several countries in the region have established turnkey facilities—such as electricity and water desalination plants—in which construction typically is guided by a foreign company and few local people are trained to run the plant once it is completed. Turnkey plants are often hollow advances because they bypass key intermediate technical stages and do not alleviate surplus labor problems. The construction of turnkey industrial plants is often more akin to conspicuous consumption than to investment in productive capacity. []

The Middle Eastern and North African states have become dependent on industrialized nations to provide spare parts—for instance, printed circuit boards, diodes, and resistors—for their technologies. Some countries, such as Iran, Iraq, and Syria, are having problems acquiring spare parts for newly acquired technologies because of reduced revenues and trade restrictions imposed by technology exporters.

[] even if firms acquire all the spare parts they need, it is difficult for some technologies, such as in telecommunications, to be utilized successfully because of exposure of equipment to dust, sand, and heat. []

Obstacles to Successful Technology Transfer

Education. For the most part, the Middle Eastern and North African educational systems have not adequately prepared their populations to absorb modern technologies:

- Literacy rates range from 15 percent in North Yemen to 75 percent in Lebanon, compared to 75 to 94 percent in newly industrialized countries such as Argentina and South Korea.
- Literacy among women and the poor averages less than 15 percent, according to an expert on education in the Middle East.
- Only half of the children in the region between the ages of 5 and 15 attend school.
- Although school enrollment reaches about 90 percent in the cities, it often does not exceed 15 percent in rural areas.
- School curriculums are outdated, and teaching staffs are weak throughout the region. []

Educational systems in the Middle East and North Africa are largely at odds with modernization policies. In some cases, the educational systems are little more

than outmoded extensions of those of the former colonial powers, and curriculums are largely irrelevant to current social and economic demands. Universities rely heavily on rote memorization. Many students in Jordan complain that by graduation they have learned only how to pass examinations. []

Vocational and technical schools are both expensive and inadequate. Per-student costs are 1.5 times greater than in general schools. Most graduates are prepared only for outdated technology because schools cannot afford new equipment, according to a contractor study. Students in computer science at Damascus University, for example, must make do with a purely theoretical education because they never see a computer. []

Culture. Cultural factors play a major role in inhibiting popular acceptance of technology in the region—particularly among the rural and lower classes, which perceive inherent conflicts between technology and tradition. Governments face public resistance to policies emphasizing technical education and, in some cases, also confront widely held class values that encourage disdain for skilled manual labor. Modern equipment and innovations generally are viewed as unreliable and confusing or as attempts by the West to gain influence. In many instances, people have to be convinced of the usefulness of technology before they will even experiment with it. []

Fundamentalist groups opposed to the spread of Western culture impede technological development. According to a contractor's study, some fundamentalists denounce what they perceive as the moral decay caused by modernization or believe that the economy is suffering because Muslims are imitating un-Islamic Western models. They demand that the government abandon Western-style education in favor of traditional Islamic instruction, with its emphasis on religious education. So far, public protest against imported industrial technology has been rare. Fundamentalists have focused more on trying to ban other Western introductions, such as video clubs and movies. []

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The Dismal State of Technical Education in Jordan

A recent survey of Jordanian technical school graduates and employers—conducted for the World Bank—reflects the low esteem with which such graduates view themselves, the inappropriate work attitudes they bring to the job, and the inadequacies of the training they received:

- *About 75 percent of technical school graduates aspire to a university-level liberal arts education and view their present circumstances as temporary.*
 - *Only 20 percent of the graduates want to achieve a high degree of competency in their chosen vocational or technical education field.*
 - *Over 60 percent of the graduates indicate that their education did not sufficiently prepare them for their first job.*
 - *Some 80 percent of the graduates had only average or below-average scholastic performance. (Trainees can drop out of a program but are never failed because of inadequate performance.)*
 - *Two-thirds of the employers of technical school graduates note that the schools are not imparting high skill standards or responsible attitudes to their students. Many employers choose to retrain the graduates that they hire.*
-

Brain Drain. The countries in the Middle East and North Africa annually lose thousands of talented youths. Most have gone abroad for technical education—mainly to the United States and Western Europe. An expert on the brain drain phenomenon estimates that more than 250,000 Arab professionals live in the United States, Europe, and Latin America because of poor salaries and living conditions, political discontent, or lack of job opportunities at home. Many professionals in fields such as medicine, engineering, or teaching also have emigrated, mainly to the richer Arab oil states.

Military Siphon. The military sector—particularly in Egypt, Iran, Iraq, Libya, Saudi Arabia, and Syria— attracts many of the best personnel by maintaining its own technical training facilities and by paying salaries that surpass those available at civilian institutions, according to a contractor's study. This contributes to the shortage of competent technical manpower in civilian sectors such as industry, construction, telecommunications, and transportation.

Low Wages. Skilled workers are disenchanted because wages do not meet expectations. Government development policies often support salary and wage practices that do not reflect the critical shortages in technical manpower. Some firms in Egypt, for example, are having trouble attracting engineers because wages are too low, according to Embassy reporting.

Regional Recession. The regional decline in real economic activity of 2 percent in 1985 and 4 to 5 percent in 1986 forced countries in the area to cut back on plans for technological development:

- Several governments in the Gulf states have postponed or scrapped projects to construct schools and training centers.
- Iran has reduced the number and amount of scholarships for study abroad because of the recession and budget cuts.

• The Arab Republic Bank for Reconstruction and Development in North Yemen is reluctant to underwrite private-sector investment in technology due to the failure of large numbers of borrowers to repay loans,

- Other regional banks also have been reluctant to grant credit for investment in technical areas.

Outlook

Most states in the region have little chance of entering the ranks of the newly industrialized countries during this century because of limited natural resources,

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fundamentally flawed educational systems, and deficiencies in their labor forces. Area governments probably will seek to strengthen their technical training programs to try to fulfill their modernization plans, but significant shortages of indigenous manpower in technical fields probably will persist at least through the end of the century:

- Saudi Arabia and the smaller Gulf states are in a good position to achieve technical advances because of their financial and hydrocarbon resources. These states, however, will continue to depend on expatriate labor to achieve technological development goals.
- Egypt and Jordan have moderate chances for technical successes in selected areas because of their relatively strong educational systems.
- The poorest countries—Mauritania, North and South Yemen, and Sudan—have the worst prospects for technological development. [redacted]

The Middle Eastern and North African nations probably will continue to rely heavily on imports, financial assistance, and trained personnel from the United States and other industrialized nations—particularly Japan, France, West Germany, and the United Kingdom—to promote technological development. As a result of its active marketing campaigns, Japan will be a particularly stiff competitor to the United States as a supplier of technology to the region. Area countries probably will

depend less on Soviet and East European equipment and assistance, which is cheaper but less reliable and less advanced than most Western goods and services.

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Leaders in the region almost certainly will ask the United States to disseminate more technological information and to relax restrictions on patent agreements. US technology exports to the region have not grown as rapidly as those of its competitors over the last decade because of restrictions on sales of advanced computers and military equipment. In addition, several countries in the region probably will approach the United States to develop joint projects to ensure continued access to technical expertise. Egypt, for instance, would like to train more technicians and production managers in the United States—particularly as Egyptians engage in more industrial ventures with the United States. [redacted] 25X1
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Pakistan: Landlord Clout

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A relatively small number of landlords and large-scale commercial farmers dominate use of Pakistan's agricultural supplies and services and provide much of its marketed output. As a group, however, they use resources less intensively and generate lower yields than other farmers. The government is supporting an agrarian structure that is far from optimal from the point of view of getting the "biggest bang for the rupee." Because of their influence at the village and national levels, landlords and large farmers can exercise considerable control over Pakistan's rural development agenda and agricultural policies. They will not countenance land reforms and will not let farm prices diverge from target ranges they desire.

Agrarian Structure

Since 1977, when the Zia government assumed power, Pakistan's agricultural sector has grown at an average annual rate of 4.2 percent. This rate is relatively higher and more stable than those typical of the developing world. Nevertheless, development in Pakistan's rural sector has been uneven.

Under existing arrangements, Pakistan's large commercial farmers, who provide the preponderance of marketed wheat, rice, cotton, and sugarcane for domestic and export markets, are faring well. They already absorb the largest share of fertilizer, water, new seeds, credit, and other inputs. They have access to extension advice if they want it. With family and political ties to the military and industrial elites, the large farmer-landlords are powerful actors in the agricultural and political sectors.

In contrast, middle and small farmers, tenants, and agricultural laborers have only narrow avenues for political expression in Pakistan's elite-dominated government and party system. They are not powerless, however, because the government needs them to meet

its food and export targets. Their aspirations are supported by external aid donors, who seek an agricultural development strategy that will make efficient use of labor, land, water, and modern inputs. There are, therefore, counterweights to large farmer-landlord dominance.

This agrarian structure is a disincentive to production. The large landholders use resources much less efficiently than would the legions of peasant farmers. Estate owners are often content with one market crop. Their personal incomes are high, and their management style is loose. They may live in the cities and act as absentee owners. In contrast, small farmers—cultivators or tenants—concentrate on raising yields. Their willingness to use family labor to the point of physical and time exhaustion is the key to getting the most food, along with cash income, from their holdings. Agricultural census data indicate that the smaller the farm, the more commonly is land double- or triple-cropped.

Large farms also tend to use purchased inputs less intensively than medium-size farms. Fertilizer application is most common on middle-range family farms and drops as farm size rises. Small farmers rely more on traditional manuring. They may lack access to credit with which to buy fertilizers. Large farmers recruit wage labor to get the work done, but, to save money and reduce management problems, they adopt labor-saving mechanical equipment such as tractors. They control irrigation flows from canals and pumpsets, but then use water wastefully.

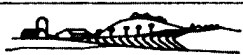
On the output side, large landowners have much better access to sales channels. They can sell on the most favorable terms to large private dealers or the government at official procurement prices. Middle and small farmers must dispose of their crops to small buyers, the big landlords, moneylenders, or village shopkeepers—all of whom extract appreciable middlemen's profits.

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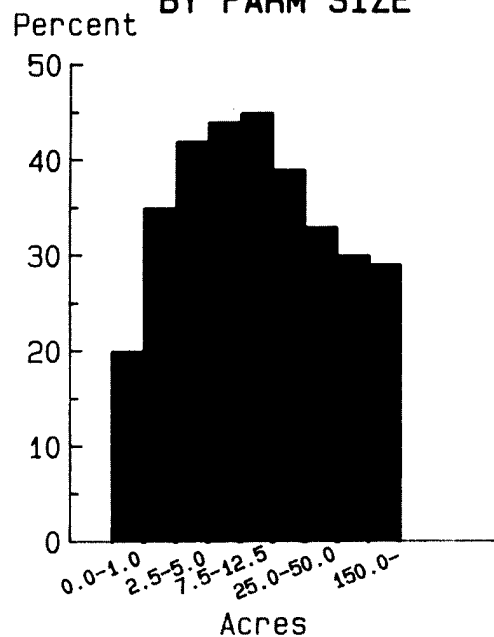
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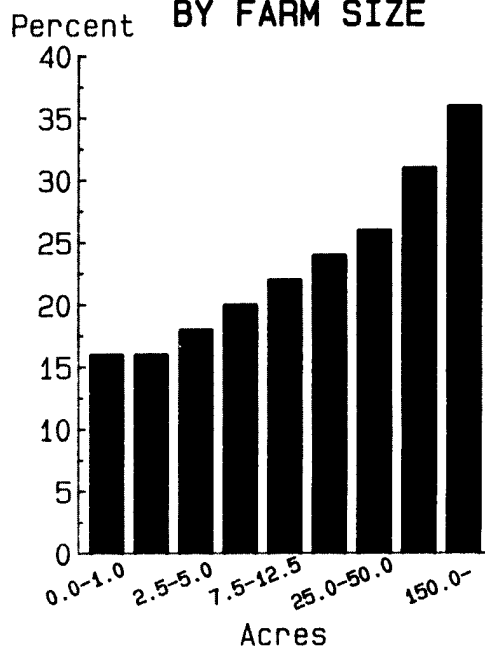


PAKISTAN: AGRARIAN STRUCTURE 1980

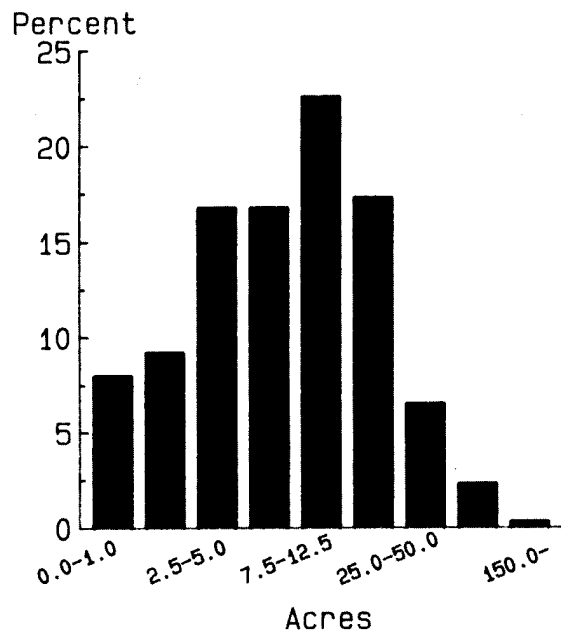
FERTILIZER USE BY FARM SIZE



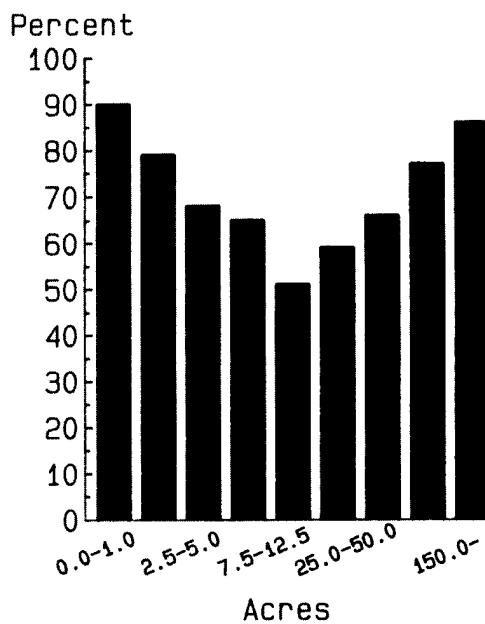
CREDIT USE BY FARM SIZE



SHARE OF FARMS BY SIZE



OWNER OPERATED FARMS BY SIZE



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Five-year plans and related manifestos giving priority to agriculture have proposed policies that make sense, but implementation has been slack. The persistent inability of the government to move in the directions outlined in successive plans stems from institutional rigidities and political forces that have not changed over at least the past 10 years.

“The Feudals”

The “big man” is a fixture of South Asian rural society and politics. In modern Pakistan, he and his ilk are known, with a mixture of disdain and deference, as “feudals.” In traditional and colonial days he stood at the head of a caste, lineage, or village. He always has had behind him an army of kin, friends, clients, and goons to act as his muscle. They were armed in the old days with sticks, stones, and perhaps swords, but today they are increasingly fitted out with domestic and imported firearms, including an occasional Kalashnikov. The big man is not reluctant to use his troops for pillage, rape, and arson. He is accustomed to fawning courtesy and rarely travels without lackeys. The magnate succeeds in holding loyalty by doing favors for his dependents and retainers. He is generous with gifts of money and food to the needy, providing loans for weddings, money to take sick children to doctors, and food to the indigent. The large farmer employs on his lands those who seek work, and his recommendations for jobs and credit carry weight at least as far as the district headquarters.

The many modern functions of the magnate account for his survival, even prosperity, in the 1980s. He helps his rural clients deal with the outside world—in its marketplaces, loan offices, courts, and police stations. At the same time, the police, agricultural extension workers, and credit agents must work through the magnates to reach the broader rural constituencies. The big men are two-way “brokers” and “fixers,” serving as intermediaries between the urban and rural, official and local, and modern and traditional worlds.

The magnate-landlord-broker is, therefore, as important to the external modern half of society as he is to the internal village half. He has often taken some of his landed wealth and moved it into commerce and

industry. His younger brothers and male children have gone to the best schools and universities and then into the Army, government, and business. At ease in both worlds, he effectively moves people and resources back and forth within the orbit of his influence.

So far, most rural magnates are successfully making the transition to urban status and affluence while retaining their rural bases. The landlords’ links to urban influence networks, via ties of birth and marriage, plus their successful penetration of the major modern political parties and institutions, suggest they will remain a powerful force.

Landlords and Party Politics

Politically, the feudals constitute a potential major building block of a party. Their retinue constitutes a vote bank that they can deliver to the candidate of their choice. They frequently take the local ticket themselves. Under the restricted politics of the Zia-Junejo period, their role has been, if anything, magnified. In the absence of open party politics and mass mobilization, the rural magnates offer one of the few significant power bases. Since their means of holding support are not restricted by official antiparty rules, their comparative strength and their role in the existing system are much larger than they would otherwise be.

Landlords dominate the federal parliament, having been elected in 1985 almost by default because the opposition parties stayed out. They are also of considerable significance in the opposition Pakistan People’s Party, and the Bhutto family itself belongs to the Sindhi landed elite. A large splinter opposition group in Sind, the National People’s Party, is headed by Ghulam Mustafa Jatoi, who has been described as a “feudal, but a good feudal.” When people are asked how many of the incumbents in the national and provincial assemblies are landlords, the answer is invariably, “They all are.”

Landlords and Agricultural Policy

Because of their influence at the village and national levels, the landlords and large farmers can exercise considerable control over Pakistan’s rural

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development agenda and agricultural policies. When they cannot shape policies to their needs at the national or provincial level, they subvert them or convert them to their uses in their village redoubts. Only when national goals coincide with theirs do they willingly cooperate with plans that are written by technocrats with considerable advice from international aid agencies.

The rural magnates will not countenance land reform in any shape or size. Only a pittance of land was redistributed to the landless during Pakistan's three forays into land reform in 1959, 1972, and 1977. Land reform is a dead issue because of the landlords' opposition.

The landlords will not let farm prices diverge from the target ranges they desire. They have permeated the Agricultural Prices Commission, which is supposed to set procurement prices for principal crops on a scientific basis, and prevented output prices from moving in directions that would threaten their incomes and lifestyles. They will not accept taxes on agriculture, higher water charges, or interference with their dominance of rural resources. The big landholders will continue to support the expansion of acreages and yields of wheat, cotton, rice, and sugarcane—the lucrative commercial crops—while remaining diffident about turning to intensive garden cropping, oilseeds, and the minor grains.

Agricultural Prospects

Pakistan's agriculture will go on expanding at about 4 percent a year so long as growth enhances the wealth of the rural magnates and does not lead to challenges to their authority. Global grain, cotton, and sugar surpluses in the years ahead will continue to limit the price incentives the government can dangle in front of domestic farmers. Nonetheless, yields are low, so the drift into the sector of new seeds, methods, and other resources will raise output. The gains will come in part from the larger estates whose magnate managers will gradually intensify input use and, to some extent, from the participation of middle and small farmers, who will benefit from governmental efforts that will gradually become more successful. These predictions are based on normal to good weather conditions and general economic and political stability.

The chief medium-term problem will be to maintain and expand the nation's irrigation system, on which all else depends. Pricing for the canal system and its distribution channels is far below cost and does not effectively ration water. Farmers take all they can get when they can get it. Water-logging and salinity affect relatively few farms and regions and do not generate urgent calls for political remedy. Most big landlords either secure their water from the public system or have high-volume tubewells at their disposal.

Although no agricultural crisis is likely in the near term, it would be desirable to liberate land and water use and provide middle and small farmers with better access to the distribution of new supplies. But it is not possible to break the power of the landlords without courting rural and national chaos. Signals of a change in this situation would be elections in which the victorious parties transcended the rural vote banks the magnates put at their disposal; meaningful land reforms; or significant allocations of budget resources for improved amenities and services for rural mass constituencies.



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Bangladesh: Lukewarm Response to Export Processing Zones

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Investor response to Bangladesh's creation of Export Processing Zones—duty-free areas devoted to export production—has been less than enthusiastic.

Inadequate infrastructure, corruption, and labor strife scare off potential investors despite government incentives like tax holidays and offshore banking facilities as well as the availability of cheap labor. So far, textile and garment manufacturers are the predominant industry in the initial Export Processing Zone (EPZ) because of the abundant labor supply and the local production of yarn and fabric. We believe progress in attracting investors to the EPZ will be sluggish, and low-technology and labor-intensive industries will continue to be the ones most likely to invest in Bangladesh.

Incentives To Invest

The EPZs are designed to broaden Bangladesh's industrial base, which experienced a sluggish growth rate of 1.2 percent in FY 1986,¹ by attracting foreign capital and technical expertise. Government officials hope the EPZs will provide employment opportunities and garner needed foreign exchange because falling oil prices in the Middle East have caused a large number of Bangladeshi workers to return home, adding to employment pressures and reducing needed remittances. Dhaka also hopes that those industries that succeed in the initial EPZ will attract other overseas investors to areas outside the zone and provide local businessmen and firms with a market for components, materials, and other services. Even though the Export Processing Zones Authority prefers high-technology firms in the EPZs, low-technology and labor-intensive industries continue to be the ones most likely to invest.

In its budget for FY 1987 the Bangladeshi Government enhanced the incentives offered to EPZ investors by offering a 10-year tax holiday for high-

technology firms and a five-year tax holiday for all other firms located in the EPZs. Investors would also be exempt from:

- Fifty percent of the tax on export sales after the tax holiday expires.
- Dividend income taxes for nonresident shareholders during the tax holiday. Exemption is available after the tax holiday if the dividend income is reinvested in the same project.
- Excise and stamp duties on land allotted in the EPZs.
- Input export taxes.

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Despite the tax benefits, we believe the most attractive feature of the EPZs is the large, inexpensive, and easily trained labor force. According to the US Embassy in Dhaka, labor costs are estimated at less than \$1 per day. Bangladesh has a sizable pool of professionals—accountants, economists, and engineers—who have few local job opportunities.

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Infrastructure and Support Facilities

Dhaka boasts that its first EPZ—located on a 263-hectare site at Chittagong—has nearby air and sea transport facilities, tax incentives, and duty-free import privileges for investing firms that should make it attractive to foreign banks and high-technology operations. Offshore banking—borrowing and lending abroad and trading in 10 specified foreign currencies—has also been approved to facilitate financial transactions in the zone. According to press reports, industrial plots—equipped with standard factory buildings and warehouses—can be leased for 30 years at an annual cost of \$1 per square meter. Road and rail connections tie the EPZ to Chittagong's main business center, seaport, and airport. The port has the capacity to handle large container ships, and water and power are supplied to individual plots by the respective utility authorities. Comprehensive

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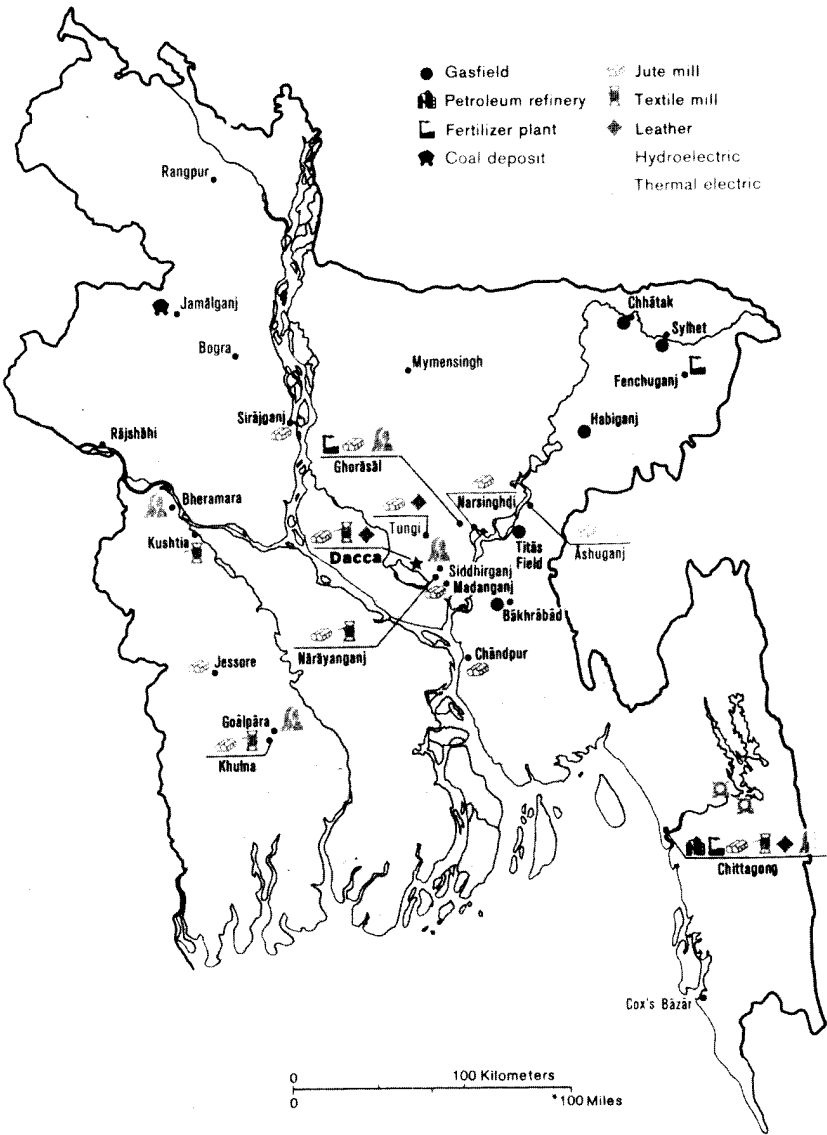
¹ The Bangladeshi fiscal year is from 1 July to 30 June.

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Fuel, Industry, and Power in Bangladesh



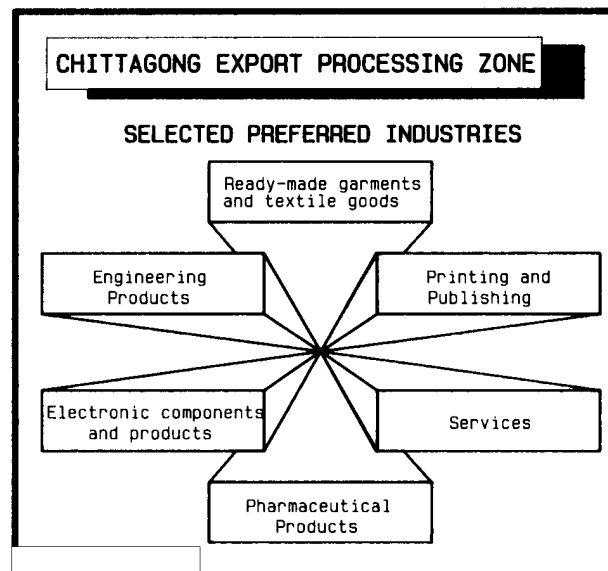
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Bangladesh's Export Processing Zones Authority

The Export Processing Zones Authority—a statutory body established in 1979—is responsible for planning, developing, and managing the EPZs. The board consists of a chairman and three members and receives advice from a consultative committee that includes a representative from the zone enterprises. Promotional efforts currently are concentrated on the EPZ at Chittagong. According to Embassy reporting, the Authority believes that success of the Chittagong EPZ depends on attracting a large US company—particularly an electronics assembly operation—to the zone. The Authority's reliance on the Bangladeshi Government for approval and implementation of projects has undermined its power and caused considerable delays.

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telecommunications, including a satellite earth station, are located nearby. Natural gas with a low sulphur content is also readily available, according to public relations officials for the EPZs.

Phase one of the three-phase project at Chittagong was completed in 1985. This phase consisted of development of 97 plots on 50 of the zone's 263 hectares. The second phase awaits government approval. According to press reports, the Asian Development Bank and other international organizations are likely to provide the \$67 million estimated by the Export Processing Zones Authority as necessary to complete the second phase of development. The authority projects the second phase—development of an additional 49 hectares—will be completed within five years of approval.

Over the last two years of operation, 19 companies—out of the 33 approved—have gone into operation, investing nearly \$12 million, contributing about \$25 million annually in export earnings, and employing more than 3,500 Bangladeshis. According to press reports, of the 19 companies, five are foreign owned; nine are joint ventures with enterprises from the United States, Japan, Hong Kong, Singapore, and

Pakistan; and the remaining five are locally owned. Most of these companies are involved in textile manufacturing because garment production costs in Bangladesh are 15 to 25 percent less than in Sri Lanka, Taiwan, and Hong Kong, according to press reports. All of the products produced in the EPZ are exported to the European Community and the United States. According to Export Processing Zones Authority estimates, when all 33 companies are operational, annual exports will reach \$70 million. Moreover, these units will employ more than 8,000 workers, represent about \$26 million in investment, and generate an estimated \$5 million annually in economic benefits.

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The Bangladeshi Government has decided to establish two more EPZs—one near Dhaka International Airport and the other at Chalna, the country's second largest port. Plans also call for investing nearly \$25 million in the development of the port facilities at Chalna to relieve some of the congestion at Chittagong. According to Chalna port officials, the construction of two landing wharfs should boost the port's capacity to 3.4 million tons of cargo annually compared with the present 2.8 million tons.

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Drawbacks

Investors have been reluctant to undertake projects in the initial EPZ despite the long list of incentives.

Bureaucratic red tape, corruption, power shortages, and labor unrest are the major complaints of potential investors. Moreover, investors are concerned about their inability to repatriate profits and guarantees of their capital, according to press reports. To combat this problem, the government passed a Foreign Private Investment Act, which calls for full protection and security of foreign private investment and guarantees the transfer of capital and the returns from it.

According to the act, investors must apply to the government for the investment protection guarantee. Because the government has the power to impose conditions on industrial undertakings, many investors are skeptical that provisions of the act will be applied evenly. [REDACTED]

Bureaucratic delays in the project approval and implementation process have discouraged investors and caused some to explore similar opportunities in neighboring countries, such as India, Hong Kong, and Taiwan. The approval process requires at least six months, according to the US Embassy in Dhaka. To deal with the problem, a subcommittee of the Ministry of Industries has recommended that the Export Processing Zones Authority be granted greater jurisdiction over projects and that operations in the zone be exempted from several acts and ordinances to speed up the process. Authority officials claim proposals could be approved within 45 days if they had sufficient power. [REDACTED]

According to the US Embassy, corruption continues to be the major obstacle for US investors. Although some US businessmen may believe that corruption is just a cost of doing business in a developing country, others, according to the US Embassy, believe the costs outweigh the benefits to be gained from investment in a market with limited attractiveness. Moreover, with the US recent imposition of quotas on certain categories of Bangladeshi garment exports, some approved garment and textile projects have failed to be implemented. [REDACTED]

According to Embassy reporting, the zone receives some priority in power allocation, but the supply is not dependable. When the capacity of the nearby hydroelectric facility drops during the dry season, severe power shortages occur, disrupting industrial production. One investor has installed his own generator—a practice viewed by many businessmen as essential—to ensure an uninterrupted power supply. The Export Processing Zones Authority would like to purchase a 10-megawatt gas turbine generator, but it lacks the necessary funds. [REDACTED]

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Chittagong port, located only 3 kilometers from the EPZ, is coming under increased pressure from the large volume of traffic, particularly containerized shipments. Trucks large enough to handle the 6-meter containers are scarce in Bangladesh, and a severe shortage has developed. According to Embassy reporting, companies operating in the EPZ have experienced delays of up to three weeks before shipments can be delivered the short distance from the port. Moreover, the 12-meter containers used by some firms are beyond the capabilities of Bangladesh's trucking industry. [REDACTED]

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Labor strife is another problem. Recent strikes in the EPZ calling for higher wages and increased medical benefits have prompted the government to ban union activity in the zone and to exempt it from Bangladesh's labor laws. [REDACTED]

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[REDACTED] labor unrest has diminished the attractiveness of the zone, and the decision to ban unions will probably worsen the problem by causing more strikes. [REDACTED]

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Outlook

The EPZs will be no panacea for Bangladesh's foreign payments problems. Efforts to diversify Dhaka's export base—which relies on the jute sector for half of its export earnings—by attracting high-technology operations such as electronic components to the EPZs have been disappointing. Transportation, infrastructure, and bureaucratic problems—major

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inhibitors for investors—are unlikely to be solved soon. Although the introduction of offshore banking in the zone coupled with the large, inexpensive labor pool should help in attracting new investment, Bangladesh will have to supply investors with more disciplined workers to compete with similar zones in the Middle East and other developing countries.

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